



CPAG'S SPRING BUDGET SUBMISSION

January 2023

Summary of recommendations

- **Invest in children by increasing social security benefits.** There are almost 4 million children living in poverty in the UK so this would be a highly cost-effective investment – it reduces child poverty immediately and leads to improved education, employment and health outcomes, including life expectancy.
- Over time, benefit freezes, sub-inflationary upratings, and harmful policies have increased the gap between entitlement and need. **Scrapping the two-child limit and removing the benefit cap** would make the most difference to children living in poverty.
- **Raise child benefit by £20 a week** – this would substantially reduce child poverty and help low and middle income families who have been struggling with the cost of living.
- **Roll out universal free school meals across England** – supporting pupils' learning and attainment, and reducing the pressure on household budgets.

In addition to these four actions, which would make an immediate difference to children and families living in poverty, the government should ensure that plans to tackle economic inactivity also help parents and carers into work.

- Support people into work by introducing a **second earner work allowance** in universal credit (UC), and providing **tailored employment support**.
- Childcare is a significant barrier that prevents many parents and carers from working. In the long-term, provide a high quality publicly funded **universal childcare system**. In the short-term expand the childcare offer for 0-2 year olds, invest in extended schools and increase the generosity and flexibility of childcare support provided through UC.

Evidence on child poverty

It is impossible to understate the importance of poverty for general living standards. **People living in poverty are in worse health, get less education, have lower well-being and their life expectancy is much shorter.**¹ Fortunately, a large body of evidence demonstrates that governments can reduce poverty and, in doing so, have a significant impact not only on incomes but other key outcomes.

What affects the poverty rate?

Trends in child poverty over the past two decades provide clear evidence of what affects the number of households in poverty. From 1999/00 to 2004/05 there was a large reduction in relative child poverty, primarily due to large increases (above the rate of earnings growth) in entitlement to social security. For instance, over this period, a lone parent in part-time work with one child saw the cash value of their benefits increase by nearly 50 per cent.² Then from 2004/05 to 2007/08, relative poverty rose as social security was only increased in line with inflation, despite there being strong economic growth.³

From 2007/08 to 2010/11 there was a fall in child poverty, as the recession led to a reduction in median income. Then since 2010/11, child poverty has risen again, as the UK government now spends **£42 billion a year less** on social security than it would have spent if cuts, freezes and other changes since 2010 hadn't happened.⁴

The importance of social security is also exemplified by the Scottish government's recent approach. The introduction of **the £25 per week Scottish Child Payment**, among other policies, is **forecast to reduce child poverty from 24 per cent pre-pandemic to 17 per cent in 2023/24.**⁵

A key factor in the initial reduction in child poverty across the UK and the reduction in Scotland was a commitment to a **child poverty strategy with poverty reduction targets**. While a poverty strategy for the 2020s needs to respond to the new challenges we face today, it needs to emulate the leadership, resources and targets that enabled success in the past. It needs to centre on a commitment to end child poverty that is shared across government departments, works in tandem with devolved administrations and is echoed in local authorities. To ensure that child poverty work is coordinated, a dedicated team in 10 Downing Street should oversee and drive the work forward.

The impact of higher social security

Aside from the obvious potential improvement in current well-being by giving low-income families more income, there is a growing body of research that looks at the long-term impact of higher social security in childhood on adult outcomes. Studies have shown that there is a **causal link between higher benefits in childhood and improved**

¹ Duncan GJ, Ziol-Guest KM, Kalil A. [Early-childhood poverty and adult attainment, behavior, and health](#). Child development. Jan;81(1):306-25, 2010

² M Brewer and others, [Child Poverty in the UK since 1998-99: lessons from the past decade](#), Working Paper 10/23, Institute for Fiscal Studies, 2010

³ As median income rose by more than low-income households income

⁴ Author's calculations from the Policy Measures Database, March 2022. The sum of all policies in the 'Social security benefits', 'Tax credits', 'Welfare Inside cap' and 'Welfare outside cap' categories for 2022/23, except 'Devolving disability benefits to the Scottish government.' These policies cover all policies announced from the 2010 Budget to the 2022 Spring Statement. As such they do not cover the recently announced emergency cost-of-living policies. However, these recently announced policies would only slightly reduce the total amount lost since 2010 and they are temporary, whereas the extensive cuts to social security are permanent.

⁵ [Tackling Child Poverty Delivery Plan 2022-26](#), Scottish Government, 2022

health, education, employment prospects and even life expectancy.⁶ More recent work has focused on valuing the combined effect of these impacts, finding that increasing social security for low-income families is a **highly cost-effective investment** for the government.⁷

Policies to address child poverty

The cost of living crisis has highlighted the inadequacy of the social security system. Increasing the overall adequacy of social security benefits should be a key objective of any government. Nonetheless, there are particular policies that would make the most difference to child poverty and represent the best investment for the government.

Re-establish the link between need and entitlement

The value of benefits has no direct link to the costs faced by low-income households. Over time, benefit freezes and sub-inflationary upratings have **increased the gap between entitlement and need**, leading to rising poverty. This is true for all households across the social security system, but there are some households who fare particularly badly, as they **do not receive their full entitlement** to meet the different characteristics of their household. The **two-child limit and benefit cap** are two clear examples of this, which are particularly detrimental to families with children.

The most cost-effective way to reduce child poverty would be to **scrap the two-child limit**.⁸ In 2023/24 over 1.5 million children are going to live in households affected by the policy, the vast majority of whom live in poverty.⁹ Scrapping the two-child limit would lift **250,000 children out of poverty and mean 850,000 children are in less deep poverty, at a cost of only £1.3 billion**.¹⁰ The policy has been shown to have a negligible impact on the number of children parents decide to have,¹¹ meaning the only real effect of the policy is to take money out of the pockets of low-income families and drive up child poverty.

Removing the benefit cap would help some of the most vulnerable families across the country. While, we welcome the recent decision to uprate the benefit cap in line with the rest of the social security system, there are still projected to be 100,000 households affected by the cap in April 2023.¹² Most of these capped households sit far below the poverty line. Removing the benefit cap would **substantially reduce the depth of poverty for the 250,000 children** living in families affected by the cap, and cost just £300 million.¹³

⁶ H Hoynes, DW Schanzenbach, D Almond, [Long-run impacts of childhood access to the safety net](#). American Economic Review 106(4):903–34, 2016

⁷ M Bailey and others, [Is the Social Safety Net a Long-Term Investment? Large-Scale Evidence from the Food Stamps Program](#), NBER Working Paper No. 26942, April 2020

⁸ Only children born after April 2017 are subject to the policy; by the time the policy is fully rolled out, up to 3 million children could be affected.

⁹ The results presented here are based on UKMOD version B1.03 UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis (CeMPA) at the University of Essex. The process of extending and updating UKMOD is financially supported by the Nuffield Foundation (2018-2021). The results and their interpretation are the author's sole responsibility.

¹⁰ See note 7

¹¹ M Reader, J Portes and R Patrick, [Does cutting child benefits reduce fertility in larger families? Evidence from the UK's two-child limit](#), Nuffield Foundation, 2022

¹² [Written questions and answers - Written questions, answers and statements - UK Parliament](#)

¹³ See note 7

Improving adequacy for everyone

Increasing child benefit would further reduce child poverty while also supporting the income security of low and middle income families who have seen their budgets stretched significantly in recent times. Even with the uprating to child benefit in April, since 2010, real-terms cuts to child benefit mean it has **lost 25 per cent of its value**.¹⁴ Increasing child benefit by **£20 a week** would see **500,000 children** pulled out of poverty, at a cost of **£10 billion**.¹⁵

Another way to support all families through the current cost of living crisis and beyond is **universal free school meals**. For families, free school meal entitlements can **relieve pressures on household budgets** and free up money for other living costs. The current provision of free school meals is far too stringent. CPAG's analysis shows that **800,000 children in poverty in England do not currently qualify for free school meals**, and therefore miss out on the many benefits, which further disadvantages them.¹⁶

There are also wider benefits to universal free school meals. They can help to **boost children's learning and attainment**,¹⁷ as well as supporting their health through providing a balanced meal each day.¹⁸ Children also benefit from the social experience of sitting down together in a shared dining hall and eating the same food.¹⁹

CPAG estimates that rolling out universal free school meals in England would cost £1.9 billion.

Employment support

It is vital in any social security system that work is appropriately incentivised. The recent reduction in the UC taper rate and increase in the UC work allowance was a welcome step that increased the amount that low-income households can take home when combining work and UC. However, it is time for the government to go further if they are serious about addressing economic inactivity. The first step is to understand why people are not working. The vast majority of **out-of-work households** are **between jobs, caring for young children** or have **disabled** household members. We also have high numbers of workless adults living in a household where one person is working – the vast majority of these are parents (usually women) who are caring for children.

Potential second earners face particularly high barriers to work. As outlined, they are often the primary caregiver of children, so work options are limited by the availability and cost of childcare. Currently, there is no work allowance for second earners, so from the first £1 they earn, 55p is lost in reduced UC. Introducing a **second earner work allowance** (as there is for primary earners) would encourage many more parents into employment.

CPAG's Your Work Your Way (YWW) project provides **tailored employment support** to second earners.²⁰ It is clear from this project that there are many more **barriers to work** than UC's 55 per cent taper rate. It is vital that parents are able to access childcare (detailed below) as well as having flexible working hours.

¹⁴ Author's calculations using *CPI All Items Index*, Office for National Statistics, 2022; Child benefit rates; Economic and fiscal outlook – November 2022, Office for Budget Responsibility, 2022

¹⁵ R Statham and H Parkes, *A lifeline for families – investing to reduce child poverty this winter*, IPPR, 2022

¹⁶ *800,000 children in poverty not getting from school meals*, CPAG, 2022

¹⁷ *Free and nutritious school lunches help create richer and healthier adults*, Lund University, 2021

¹⁸ *Impact of the universal infant free school meal policy*, Nuffield Foundation, 2020

¹⁹ *Evaluation of Universal Infant Free School Meals*, Education Policy Institute, 2018

²⁰ See cpag.org.uk/your-work-your-way for more details

Fatima is a mother of 3 from Pakistan. Her husband works in a warehouse.²¹ She was a teacher in Pakistan and has a Master's Degree. She wants to work as a teaching assistant. She has a good level of conversational and written English but due to availability of space at the Adult Education provision has been studying at a lower level. If she continues to use this route to gaining a Level 2 Functional Skills in English it could take her another year before she can work as a Teaching Assistant (L2 Functional Skills qualifies as GCSE equivalent for jobs requiring English and Maths GCSEs). YWYW are working with her to fund an intensive L2 course which will mean she can start to apply for jobs in a couple of months rather than a year from now.

As the case study highlights, it is important that potential earners are given employment support to find the best job to match their skills; that they can access training courses; and that they receive advice on self-employment. There should also be greater consideration given to hidden costs such as transport (particularly in rural areas) and access to IT.

Childcare

The UK has one of the most expensive childcare systems in the world.²² Support for the cost of childcare is a complex patchwork, differing by age of child and nation.²³ 44 per cent of councils in England reported not having enough childcare for parents who work full time.²⁴ A comprehensive child poverty strategy should commit to reforming childcare to reduce costs and improve quality for all families by moving towards a **universal, publicly funded childcare system**.

Pre-school childcare

A big gap in pre-school childcare exists for **children aged 0-2**. And this is where childcare is the most expensive for families. There is currently no supply-side funding for this age group in England, while for children aged 3-4 the free entitlement provides more support but still leaves many families facing huge gaps. CPAG's Cost of a Child analysis finds that to be the main reason why **the cost of having a child is highest when children are young is childcare**.²⁵ There are also significant gaps in the supply of childcare for older children, disabled children and for parents working atypical hours which need to be addressed.²⁶

Extended schools

Our research shows that before- and after-school activities support children to thrive, and help them explore their wider interests outside the core curriculum. They are proven to **support pupils' learning and attainment**.^{27 28} What is more, where they are free to access, they can significantly **boost family finances**. This provision enables parents to work more or find new or more rewarding work, as well as removing prohibitive childcare costs. However, because these activities rely on already-stretched school budgets, only some children and families currently get to reap the many educational and financial benefits. The rest are locked out because of costs or lack of provision.

Investment in before- and after-school provision must be prioritised so children can thrive and families have more opportunities to work. Publicly funding these clubs and activities, and making them universally available, would

²¹ All names have been changed to protect the identity of participants.

²² *Is Childcare Affordable?*, OECD, 2020

²³ Provision of financial support for childcare costs is split across three different government departments.

²⁴ L Coleman, M Dali-Chaouch and C, Harding (2020) *Childcare Survey 2020*, Coram Family and Childcare Trust

²⁵ D Hirsch and J Stone, *The Cost of a Child in 2022*, CPAG, 2022

²⁶ L Coleman, S Shorto and D Ben-Galim, *Childcare Survey 2022*, Coram Family and Childcare, 2022

²⁷ *Maqic breakfast*, IFS, 2016

²⁸ *Can out of school activities close the attainment gap?*, Newcastle University, 2016

help reduce child poverty. CPAG has estimated that it would cost £2.6 billion a year to fund every primary school in England to deliver core extended schools activities. For secondary schools, an additional £525 million would be required.²⁹

Universal Credit

In the long term CPAG advocates for universal childcare provision, however there are some immediate reforms that would help low-income families with childcare costs now. These would increase parent's employment options and support families to escape poverty.

A key problem with childcare support in UC is the rigid delivery mechanism. Unlike in the tax credit system, UC requires parents to pay for childcare costs upfront and then wait weeks to be reimbursed.³⁰ Costs can exceed £1,000 for a month's full-time place. This can create a significant financial barrier to starting work, taking on additional hours, or staying in work when childcare needs change such as during the school holidays. The flexible support fund and budgeting advances can be used to circumvent the rigid system, but awareness of these schemes is extremely limited and they are not advertised. Evidence from our Early Warning System shows how upfront childcare costs can create barriers to work and progression for parents:³¹

Charlie is a lone parent with three children. She works shifts that sometimes require her to work at night. Charlie is struggling to afford the essentials on her current income and wants to take on additional hours at work. However, she can't afford the upfront childcare costs to allow her to work additional hours. Charlie has tried to get a loan to allow her to pay for the first month of childcare but was denied, and has no other source of financial support to draw on.

The level of financial support provided through UC is also not adequate. Currently UC pays up to 85 per cent of childcare costs, but the remaining 15 per cent is still substantial. When coupled with the taper rate, national insurance contributions and income tax, it can mean that parents see only a small financial gain from taking on extra work.³²

Jill is a lone parent with two children who attend the local primary school. She is currently working 15 hours per week on the minimum wage to fit in work around school drop-off and pick-up (8:30am and 3:30pm respectively). Jill is currently in receipt of UC and is eligible to claim support for up to 85 per cent of her childcare costs. After she's covered her housing costs, Jill's weekly income is £297, which means Jill and her children live below the poverty line (£300 for her family). Jill would like to work more but childcare costs are a significant barrier.

If Jill chooses to increase her work to 30 hours per week but has to pay for before- and after-school provision to make this possible, she would lose over half of her increased net income to meet these costs. In this instance, Jill's additional income would be £55 per week (after tax) but she would spend £30 on childcare.

²⁹ [Extended school provision](#), CPAG, 2021

³⁰ Depending on how a claimant's assessment period aligns with the delivery of childcare, they may have to wait over a month.

³¹ CPAG's Early Warning System collects case study evidence from advisers across the UK on the impacts of welfare reform, and has collected thousands of cases to date.

³² [Children's futures and the economic case for before- and after-school provision](#), CPAG and Magic Breakfast, 2022

There is also a cap on monthly costs, meaning that families in high-cost areas such as London can receive less than 85 per cent of the total costs. Evidence from YWYW shows that parents looking for work often struggle with training, application forms and interviews without dedicated childcare support to cover these times.

Conclusion

As the evidence outlined in this briefing demonstrates, child poverty is not inevitable. With the right policy changes we can reverse the rise that will see 1 in 3 children living in poverty by the end of this parliament.³³ Increasing child benefit, expanding free school meals, and abolishing the two child limit and benefit cap would instantly help millions of children in poverty, as well as improving their life chances. In addition, the government's plans to tackle economic inactivity represent an opportunity to help families further by addressing the barriers parents and carers face in employment.

About CPAG and our sources of evidence

We have particular expertise in the functioning of the social security system, through our welfare rights, training and policy work. CPAG's Early Warning System collects case study evidence from advisers across the UK on the impacts of welfare reform, and has collected thousands of cases to date. We also have two particular projects focusing on different areas of family life.

The Cost of the School Day project aims to reduce the financial barriers that prevent pupils from fully participating in the school day. The project involves working with whole-school communities to identify and reduce cost barriers faced by pupils from low-income backgrounds, including eating at school, uniform costs and school trips. The Your Work Your Way project provides tailored employment support to second earners.

³³ [Living Standards Outlook 2023](#), Resolution Foundation, 2023